

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Tommy Slone, Jackson County Judge/Executive

Members of the Jackson County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Jackson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
JACKSON COUNTY FISCAL COURT**

June 30, 2006

Morgan–Franklin, LLC has completed the audit of the Jackson County Fiscal Court for the fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Jackson County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$3,875,059 as of June 30, 2006. The fiscal court had unrestricted net assets of \$821,511 in its governmental activities as of June 30, 2006, with total net assets of \$3,873,412. In its enterprise fund, total net cash and cash equivalents were \$1,647 with total net assets of \$1,647. The fiscal court had total debt principal as of June 30, 2006 of \$76,444 with \$37,365 due within the next year.

Report Comments:

- 2006-1 The County Judge Executive Appears To Have Been Overpaid By A Net Amount Of \$214 Over The 2005 Fiscal Year
- 2006-2 The Jailer Should Prepare And Provide A Copy Of The Jail Canteen Report To The County Treasurer
- 2006-3 The County Should Properly Maintain Personnel Records
- 2006-4 The County Judge/Executive Should Present All Transfers To The Fiscal Court For Approval
- 2006-5 Jackson County Parks And Recreation Should Prepare Financial Statements And Monthly Reports For The Fiscal Court
- 2006-6 The County Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures
- 2006-7 The Jail Canteen Account Should Be Closed
- 2006-8 The County Should Maintain Complete And Accurate Fixed Asset Schedules To Comply With GASB 34 Requirements

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITORS' REPORT	1
JACKSON COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
NOTES TO FINANCIAL STATEMENTS	36
BUDGETARY COMPARISON SCHEDULES	51
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	58
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	61
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	65
COMMENTS AND RECOMMENDATIONS	66
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	71
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS	

Morgan-Franklin, LLC

Certified Public Accountants

P.O. Box 428
513 Main Street
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
FAX: (606) 743-1895
www.morganfranklin.com

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Jackson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Jackson County, Kentucky, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The Jackson County Fiscal Court has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson County, Kentucky's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2006 on our consideration of Jackson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2006-1 The County Judge Executive Appears To Have Been Overpaid By A Net Amount Of \$214 Over The 2005 Fiscal Year
- 2006-2 The Jailer Should Prepare And Provide A Copy Of The Jail Canteen Report To The County Treasurer
- 2006-3 The County Should Properly Maintain Personnel Records
- 2006-4 The County Judge/Executive Should Present All Transfers To The Fiscal Court For Approval
- 2006-5 Jackson County Parks And Recreation Should Prepare Financial Statements And Monthly Reports For The Fiscal Court
- 2006-6 The County Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures
- 2006-7 The Jail Canteen Account Should Be Closed
- 2006-8 The County Should Maintain Complete And Accurate Fixed Asset Schedules To Comply With GASB 34 Requirements

Respectfully submitted,

Morgan - Franklin, LLC

Morgan – Franklin,

Audit fieldwork completed -
September 12, 2006

JACKSON COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Tommy Slone	County Judge/Executive
Leon Bingham	Magistrate
Edward Morgan	Magistrate
Vester Rose	Magistrate

Other Elected Officials:

George Hays	County Attorney
Ronnie Gabbard	Jailer
Donald Moore	County Clerk
Bobby Morris	Circuit Court Clerk
Tim Fee	Sheriff
Paul Rose	Property Valuation Administrator
Melvin Lakes	Coroner

Appointed Personnel:

Patricia Gabbard	County Treasurer
Patricia Gabbard	Personnel or Payroll Officer
Patricia Gabbard	Data Processing Clerk
Teresa Truett	Occupational Tax Administrator
Brian Ealy	Road Supervisor
Devonna Hisel	Other Key Personnel
William Gay	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

JACKSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 821,511	\$ 1,647	\$ 823,158
Total Current Assets	<u>821,511</u>	<u>1,647</u>	<u>823,158</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	245,373		245,373
Buildings	809,031		809,031
Vehicles and Equipment	862,652		862,652
Infrastructure Assets - Net of Depreciation	<u>1,211,289</u>		<u>1,211,289</u>
Total Noncurrent Assets	<u>3,128,345</u>		<u>3,128,345</u>
Total Assets	<u>3,949,856</u>	<u>1,647</u>	<u>3,951,503</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations	<u>37,365</u>		<u>37,365</u>
Total Current Liabilities	<u>37,365</u>		<u>37,365</u>
Noncurrent Liabilities:			
Financing Obligations	<u>39,079</u>		<u>39,079</u>
Total Noncurrent Liabilities	<u>39,079</u>		<u>39,079</u>
Total Liabilities	<u>76,444</u>		<u>76,444</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,051,901		3,051,901
Unrestricted	<u>821,511</u>	<u>1,647</u>	<u>823,158</u>
Total Net Assets	<u>\$ 3,873,412</u>	<u>\$ 1,647</u>	<u>\$ 3,875,059</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,025,967	\$	\$ 156,262	\$ 319,975
Protection to Persons and Property	1,080,977	1,986	506,024	
General Health and Sanitation	1,148,416	287,455		672,850
Social Services	4,140		76,457	
Recreation and Culture	52,854	11,802		
Roads	952,157		1,729,716	
Interest on Long-term Debt	15,553			
Total Governmental Activities	4,280,064	301,243	2,468,459	992,825
Business-type Activities:				
Jail Canteen	799	422		
Total Business-type Activities	799	422		
Total Primary Government	\$ 4,280,863	\$ 301,665	\$ 2,468,459	\$ 992,825

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Insurance License Taxes

Occupational License Tax

Other Taxes

In Lieu Taxes

Excess Fees

Interest Income

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (549,730)	\$	\$ (549,730)
(572,967)		(572,967)
(188,111)		(188,111)
72,317		72,317
(41,052)		(41,052)
777,559		777,559
(15,553)		(15,553)
(517,537)		(517,537)
	(377)	(377)
	(377)	(377)
(517,537)	(377)	(517,914)
159,057		159,057
8,799		8,799
87,008		87,008
456,391		456,391
520,130		520,130
56,516		56,516
123,746		123,746
40,863		40,863
11,010		11,010
1,463,520		1,463,520
945,983	(377)	945,606
2,927,429	2,024	2,929,453
\$ 3,873,412	\$ 1,647	\$ 3,875,059

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

JACKSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	LGEA Fund	State Grant Fund
ASSETS					
Cash and Cash Equivalents	\$ 157,672	\$ 237,985	\$ 4,468	\$ 220,089	\$ 84,650
Total Assets	<u>\$ 157,672</u>	<u>\$ 237,985</u>	<u>\$ 4,468</u>	<u>\$ 220,089</u>	<u>\$ 84,650</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$	\$	\$ 10	\$	\$
Unreserved:					
General Fund	157,672				
Special Revenue Funds		237,985	4,458	220,089	84,650
Total Fund Balances	<u>\$ 157,672</u>	<u>\$ 237,985</u>	<u>\$ 4,468</u>	<u>\$ 220,089</u>	<u>\$ 84,650</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 821,511
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Of \$4,624,910,	
Net Of Accumulated Depreciation Of \$1,496,565 Are Not Financial	
Resources And, Therefore, Are Not Reported In The Funds	3,128,345
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not	
Reported In The Funds.	
Financing Obligations	<u>(76,444)</u>
Net Assets Of Governmental Activities	<u>\$ 3,873,412</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2006****(Continued)**

Special Grant Fund	D.E.S Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 1,390</u>	<u>\$ 78,422</u>	<u>\$ 36,835</u>	<u>\$ 821,511</u>
<u>\$ 1,390</u>	<u>\$ 78,422</u>	<u>\$ 36,835</u>	<u>\$ 821,511</u>
\$	\$	\$ 29	\$ 39
			157,672
<u>1,390</u>	<u>78,422</u>	<u>36,806</u>	<u>663,800</u>
<u>\$ 1,390</u>	<u>\$ 78,422</u>	<u>\$ 36,835</u>	<u>\$ 821,511</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
REVENUES				
Taxes	\$ 1,285,109	\$	\$	
In Lieu Tax Payments	64,786	58,960		
Excess Fees	40,863			
Intergovernmental	441,748	1,448,930	74,176	244,769
Charges for Services	15,634			
Miscellaneous		56,914	19,544	
Interest	1,794	5,494	255	2,999
Total Revenues	<u>1,849,934</u>	<u>1,570,298</u>	<u>93,975</u>	<u>247,768</u>
EXPENDITURES				
General Government	588,009	10,800		16,989
Protection to Persons and Property	295,438		569,382	22,518
General Health and Sanitation	249,396			28,710
Social Services				4,140
Recreation and Culture				32,456
Roads		1,378,420		59,990
Debt Service		30,301		
Administration	272,791	161,439	37,775	5,879
Total Expenditures	<u>1,405,634</u>	<u>1,580,960</u>	<u>607,157</u>	<u>170,682</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>444,300</u>	<u>(10,662)</u>	<u>(513,182)</u>	<u>77,086</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	141,163	10,000	506,149	
Transfers To Other Funds	(516,149)	(109,000)		
Total Other Financing Sources (Uses)	<u>(374,986)</u>	<u>(99,000)</u>	<u>506,149</u>	
Net Change in Fund Balances	69,314	(109,662)	(7,033)	77,086
Fund Balances - Beginning	88,358	347,647	11,501	143,003
Fund Balances - Ending	<u>\$ 157,672</u>	<u>\$ 237,985</u>	<u>\$ 4,468</u>	<u>\$ 220,089</u>

The accompanying notes are an integral part of the financial statements.

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

State Grant Fund	Special Grant Fund	D.E.S. Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$	\$ 2,791	\$ 1,287,900
				123,746
				40,863
84,650	555,024	184,364	353,151	3,386,812
			283,623	299,257
				76,458
			469	11,011
<u>84,650</u>	<u>555,024</u>	<u>184,364</u>	<u>640,034</u>	<u>5,226,047</u>
				615,798
		148,977	2,407	1,038,722
	558,837		331,128	1,168,071
				4,140
			12,819	45,275
				1,438,410
			339,635	369,936
			17,816	495,700
	<u>558,837</u>	<u>148,977</u>	<u>703,805</u>	<u>5,176,052</u>
<u>84,650</u>	<u>(3,813)</u>	<u>35,387</u>	<u>(63,771)</u>	<u>49,995</u>
				657,312
		(32,163)		(657,312)
		(32,163)		0
84,650	(3,813)	3,224	(63,771)	49,995
	5,203	75,198	100,606	771,516
<u>\$ 84,650</u>	<u>\$ 1,390</u>	<u>\$ 78,422</u>	<u>\$ 36,835</u>	<u>\$ 821,511</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

JACKSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	49,995
--	----	--------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		795,920
Depreciation Expense		(254,319)

The issuance of long-term debt provides current financial resources to governmental funds while lease and bond principal payments are expensed in the Governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Financing Obligation Principal Payments		354,386
---	--	---------

Rounding Difference		1
---------------------	--	---

Change in Net Assets of Governmental Activities	\$	945,983
---	----	---------

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

JACKSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,647
Total Current Assets	<u>1,647</u>
Net Assets	
Unrestricted	1,647
Total Net Assets	<u><u>\$ 1,647</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

JACKSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 422
Total Operating Revenues	<u>422</u>
Operating Expenses	
Inmate Benefits	<u>799</u>
Total Operating Expenses	<u>799</u>
Operating Income (Loss)	<u>(377)</u>
Change In Net Assets	(377)
Total Net Assets - Beginning	<u>2,024</u>
Total Net Assets - Ending	<u><u>\$ 1,647</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

JACKSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 422
Payments To Vendors	(799)
Net Cash Provided By Operating Activities	(377)
Net Increase (Decrease) in Cash and Cash Equivalents	(377)
Cash and Cash Equivalents - July 1, 2005	2,024
Cash and Cash Equivalents - June 30, 2006	\$ 1,647

	Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	\$ (377)
Net Cash Provided By Operating Activities	\$ (377)

The accompanying notes are an integral part of the financial statements.

**JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county prepares its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Jackson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

The KADD Financing Trust Lease Fund

The KADD Financing Trust Lease Fund is established for the Fiscal Court for the purpose of providing financing for approved projects and is maintained by a third party trustee on the Fiscal Court's behalf; therefore, management must include this fund as a part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

The Jackson County Recreation and Parks Board

The Jackson County Recreation and Parks Board is established for the purpose of maintaining and overseeing the day-to-day operations of the county parks. The Jackson County Fiscal Court is financially accountable for the Board; therefore, management must include the board as part of the reporting entity and its financial activity is blended with that of the Fiscal Court.

C. Additional Jackson County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Jackson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Jackson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds received and expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes

DES Fund - The primary purpose of this fund is to account for the Disaster and Emergency expenses of the county. The primary sources of revenue for this fund are reimbursements from the state government and transfers from the general fund

State Grant Fund - The purpose of this fund is to account for grant funds received and expended for state grant funded projects.

Special Grant Fund - The purpose of this fund is to account for grant funds received and expended for state and federal grant funded projects.

The primary government also has the following non-major funds: Forestry Fund, Transfer Fund, KADD Fund, and the Recreation and Parks Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Transfer Fund, State Grant Fund, Special Grant Fund, Forestry Fund, DES Fund, and the Recreation and Parks Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The KADD Fund is presented as a debt service fund. Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements and Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the KADD Financing Trust Lease Fund and the Recreation and Parks Fund. The Governor's Office for Local Development does not require these funds to be budgeted.

J. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Jackson County McKee Industrial Development Authority meets the criteria noted above and is disclosed as an organization jointly governed by Jackson County and the City of McKee.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

B. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of October 4, 2005, \$255,730 of the County's bank balance of \$1,358,885 was exposed to custodial credit risk as follows:

Uninsured and unsecured	<u>\$ 255,730</u>
-------------------------	-------------------

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 245,373	\$	\$	\$ 245,373
Total Capital Assets Not Being Depreciated	245,373			245,373
Capital Assets, Being Depreciated:				
Buildings	1,236,215			1,236,215
Vehicles and Equipment	1,518,442	164,589		1,683,031
Infrastructure	828,960	631,331		1,460,291
Total Capital Assets Being Depreciated	3,583,617	795,920		4,379,537
Less Accumulated Depreciation For:				
Buildings	(399,633)	(27,551)		(427,184)
Vehicles and Equipment	(739,640)	(80,739)		(820,379)
Infrastructure	(102,973)	(146,029)		(249,002)
Total Accumulated Depreciation	(1,242,246)	(254,319)		(1,496,565)
Total Capital Assets, Being Depreciated, Net	2,341,371	541,601		2,882,972
Governmental Activities Capital Assets, Net	<u>\$ 2,586,744</u>	<u>\$ 541,601</u>	<u>\$</u>	<u>\$ 3,128,345</u>

Governmental Activities:

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 5,470
Protection to Persons and Property	42,256
General Health and Sanitation	1,854
Recreation and Culture	7,579
Roads, Including Depreciation of General Infrastructure Assets	<u>197,160</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 254,319</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt

A. KADD Lease – Series 2005

In April of 2005, the Jackson County Fiscal Court entered into a one-year leasing agreement with KADD Financing Trust to refinance a previous KADD lease dated May 7, 2004. The proceeds of the original lease were used to refinance a 2003 KADD lease used to purchase land for a new county courthouse. The lease matured on May 1, 2006. The principal due of \$315,000 was paid in full as of May 1, 2006.

B. Changes in Short-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
KADD Series 2005-H	\$ 315,000	\$ 0	\$ (315,000)	\$ 0	\$ 0
Financing Obligations Payable	<u>\$ 315,000</u>	<u>\$ 0</u>	<u>\$ (315,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. 2002 Ambulance

On September 17, 2002, the County entered into a lease agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Terms of the lease agreement stipulate a three-year repayment schedule with monthly principal and interest payments of \$975. As of June 30, 2006, the principal balance outstanding was \$0. The principal was paid in full as of September 13, 2005. However, the County paid an extra payment on the lease and the payment due back to the County is as follows:

Total Principal Due In 2006 Fiscal Year	\$ 3,876
Total Principal Paid In 2006 Fiscal Year	<u>4,851</u>
Total Overpayment Due To Fiscal Court	<u>\$ (975)</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

B. 2003 Komatsu Wheel Loader

On February 20, 2003, the County entered into a lease agreement with Komatsu Financial for the purchase of a Komatsu wheel loader. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,207. As of June 30, 2006, the principal balance outstanding was \$27,750. Debts service requirements for fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 13,624	\$ 864
2008	14,126	309
Totals	<u>\$ 27,750</u>	<u>\$ 1,173</u>

C. 2003 GMC Dump Truck

On May 30, 2003, the County entered into a lease agreement with Volvo Commercial Finance for the purchase of a GMC dump truck. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$1,025. As of June 30, 2006, the principal balance outstanding was \$23,189. Debts service requirements for fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 11,262	\$ 1,040
2008	11,927	375
Totals	<u>\$ 23,189</u>	<u>\$ 1,415</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

D. 2003 Ambulance

On January 13, 2004, the County entered into a lease agreement with Farmer's Bank and Capital Trust Co. for the purchase of an ambulance. Terms of the lease agreement stipulate a four-year repayment schedule with semi-annual principal and interest payments of \$6,741 due in July and January. As of June 30, 2006, the principal balance outstanding was \$25,505. Debts service requirements for fiscal years ending June 30, 2007 and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 12,479	\$ 1,003
2008	13,026	206
Totals	<u>\$ 25,505</u>	<u>\$ 1,209</u>

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 115,830	\$ 0	\$ 39,386	\$ 76,444	\$ 37,365
Governmental Activities					
Long-term Liabilities	<u>\$ 115,830</u>	<u>\$ 0</u>	<u>\$ 39,386</u>	<u>\$ 76,444</u>	<u>\$ 37,365</u>

Note 6. Operating Lease

The fiscal court entered into a lease agreement for a vehicle to be used by DES. The total expense related to this lease was \$6,743 for the fiscal year ended June 30, 2006. The future minimum lease payments for this lease are as follows:

Fiscal Year Ended June 30	Operating Lease
	Lease Payment
2007	\$ 6,825
2008	5,118
Totals	<u>\$ 11,943</u>

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Jackson County was a member of the Kentucky Association of Counties' All Line Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,047,300	\$ 1,189,500	\$ 1,285,109	\$ 95,609
In Lieu Tax Payments	93,000	93,000	64,786	(28,214)
Excess Fees	17,000	44,550	40,863	(3,687)
Intergovernmental Revenue	258,675	419,861	441,748	21,887
Charges for Services	20,000	20,000	15,634	(4,366)
Miscellaneous	2,000	2,000		(2,000)
Interest	1,200	1,200	1,794	594
Total Revenues	1,439,175	1,770,111	1,849,934	79,823
EXPENDITURES				
General Government	488,174	606,599	588,009	18,590
Protection to Persons and Property	182,802	300,916	295,438	5,478
General Health and Sanitation	175,000	249,396	249,396	0
Administration	256,050	276,051	272,791	3,260
Total Expenditures	1,102,026	1,432,962	1,405,634	27,328
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	337,149	337,149	444,300	107,151
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	99,000	99,000	141,163	42,163
Transfers To Other Funds	(506,149)	(506,149)	(516,149)	(10,000)
Total Other Financing Sources (Uses)	(407,149)	(407,149)	(374,986)	32,163
Net Changes in Fund Balance	(70,000)	(70,000)	69,314	139,314
Fund Balance - Beginning	70,000	70,000	88,358	18,358
Fund Balance - Ending	\$ 0	\$ 0	\$ 157,672	\$ 157,672

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 58,000	\$ 58,000	\$ 58,960	\$ 960
Intergovernmental Revenue	938,959	1,819,156	1,448,930	(370,226)
Miscellaneous	1,000	1,000	56,914	55,914
Interest	8,000	8,000	5,494	(2,506)
Total Revenues	1,005,959	1,886,156	1,570,298	(315,858)
EXPENDITURES				
General Government	10,800	10,800	10,800	0
Roads	986,042	1,853,239	1,378,420	474,819
Debt Service	29,000	42,000	30,301	11,699
Administration	177,834	177,834	161,439	16,395
Total Expenditures	1,203,676	2,083,873	1,580,960	502,913
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(197,717)	(197,717)	(10,662)	187,055
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds			10,000	10,000
Transfers to Other Funds	(99,000)	(99,000)	(109,000)	(10,000)
Total Other Financing Sources (Uses)	(99,000)	(99,000)	(99,000)	0
Net Changes in Fund Balance	(296,717)	(296,717)	(109,662)	187,055
Fund Balance - Beginning	296,717	296,717	347,647	50,930
Fund Balance - Ending	\$ 0	\$ 0	\$ 237,985	\$ 237,985

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 85,790	\$ 85,790	\$ 74,176	\$ (11,614)
Miscellaneous			19,544	19,544
Interest	2,000	2,000	255	(1,745)
Total Revenues	87,790	87,790	93,975	6,185
EXPENDITURES				
Protection to Persons and Property	548,439	624,189	569,382	54,807
Administration	50,500	61,750	37,775	23,975
Total Expenditures	598,939	685,939	607,157	78,782
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(511,149)	(598,149)	(513,182)	84,967
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	506,149	506,149	506,149	0
Transfers to Other Funds		87,000		(87,000)
Total Other Financing Sources (Uses)	506,149	593,149	506,149	(87,000)
Net Changes in Fund Balance	(5,000)	(5,000)	(7,033)	(2,033)
Fund Balance - Beginning	5,000	5,000	11,501	6,501
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,468	\$ 4,468

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 136,000	\$ 136,000	\$ 244,769	\$ 108,769
Interest	150	150	2,999	2,849
Total Revenues	136,150	136,150	247,768	111,618
EXPENDITURES				
General Government	11,500	17,700	16,989	711
Protection to Persons and Property	41,300	24,960	22,518	2,442
General Health and Sanitation	35,000	34,000	28,710	5,290
Social Services	4,000	5,140	4,140	1,000
Recreation and Culture	23,625	33,525	32,456	1,069
Transportation Facilities and Services	60,000	60,000	59,990	10
Administration	10,000	10,100	5,879	4,221
Total Expenditures	185,425	185,425	170,682	14,743
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(49,275)	(49,275)	77,086	126,361
Net Changes in Fund Balances	(49,275)	(49,275)	77,086	126,361
Fund Balances - Beginning	49,275	49,275	143,003	93,728
Fund Balances - Ending	\$ 0	\$ 0	\$ 220,089	\$ 220,089

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	D.E.S. GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 45,000	\$ 135,000	\$ 184,364	\$ 49,364
Total Revenues	45,000	135,000	184,364	49,364
EXPENDITURES				
Protection to Persons and Property	60,000	150,000	148,977	1,023
Total Expenditures	60,000	150,000	148,977	1,023
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(15,000)	(15,000)	35,387	50,387
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(32,163)	(32,163)
Total Other Financing Sources (Uses)			(32,163)	(32,163)
Net Changes in Fund Balance	(15,000)	(15,000)	3,224	18,224
Fund Balance - Beginning	15,000	15,000	75,198	60,198
Fund Balance - Ending	\$ 0	\$ 0	\$ 78,422	\$ 78,422

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

SPECIAL GRANT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,990,086	\$ 2,990,086	\$ 555,024	\$ (2,435,062)
Total Revenues	2,990,086	2,990,086	555,024	(2,435,062)
EXPENDITURES				
General Health and Sanitation	2,990,086	2,990,086	558,837	2,431,249
Total Expenditures	2,990,086	2,990,086	558,837	2,431,249
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			(3,813)	(3,813)
Net Changes in Fund Balance			(3,813)	(3,813)
Fund Balance - Beginning			5,203	5,203
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,390	\$ 1,390

JACKSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
REVENUES			Variance with Final Budget Positive (Negative)
Intergovernmental Revenue			\$ 84,650
Total Revenues			84,650
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			84,650
Net Changes in Fund Balance			84,650
Fund Balance - Beginning			0
Fund Balance - Ending	\$ 0	\$ 0	\$ 84,650

**JACKSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

JACKSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Forestry Fund	Transfer Fund	KADD Fund	Recreation and Parks Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,184	\$ 12,927	\$ 729	\$ 21,995	\$ 36,835
Total Assets	<u>\$ 1,184</u>	<u>\$ 12,927</u>	<u>\$ 729</u>	<u>\$ 21,995</u>	<u>\$ 36,835</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$	\$ 29	\$	\$	\$ 29
Unreserved:					
Special Revenue Funds	<u>1,184</u>	<u>12,898</u>	<u>729</u>	<u>21,995</u>	<u>36,806</u>
Total Fund Balances	<u>\$ 1,184</u>	<u>\$ 12,927</u>	<u>\$ 729</u>	<u>\$ 21,995</u>	<u>\$ 36,835</u>

THIS PAGE LEFT BLANK INTENTIONALLY

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

JACKSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Forestry Fund	Transfer Fund	KADD Fund	Recreation and Parks Fund	Total Non-Major Governmental Funds
REVENUES					
Taxes	\$ 2,791	\$	\$	\$	\$ 2,791
Intergovernmental		33,176	319,975		353,151
Charges For Services		271,821		11,802	283,623
Interest	42	427			469
Total Revenues	<u>2,833</u>	<u>305,424</u>	<u>319,975</u>	<u>11,802</u>	<u>640,034</u>
EXPENDITURES					
Protection to Persons and Property	2,407				2,407
General Health and Sanitation		331,128			331,128
Recreation and Culture				12,819	12,819
Debt Service		14,489	325,146		339,635
Administration		17,816			17,816
Total Expenditures	<u>2,407</u>	<u>363,433</u>	<u>325,146</u>	<u>12,819</u>	<u>703,805</u>
Excess (Deficiency) of Revenues					
Expenditures Before Other					
Financing Sources And Uses	<u>426</u>	<u>(58,009)</u>	<u>(5,171)</u>	<u>(1,017)</u>	<u>(63,771)</u>
Net Change in Fund Balances	426	(58,009)	(5,171)	(1,017)	(63,771)
Fund Balances - Beginning	759	70,935	5,900	23,012	100,606
Fund Balances - Ending	<u>\$ 1,185</u>	<u>\$ 12,926</u>	<u>\$ 729</u>	<u>\$ 21,995</u>	<u>\$ 36,835</u>

**JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2006

NONCOMPLIANCES

Reference Number 2006-1

The County Judge Executive Appears To Have Been Overpaid By A Net Amount Of \$214 Over The 2005 Fiscal Year

KRS 67.705 states that the county judge/executive shall receive an annual salary pursuant to the salary schedule set by the Governor's Office of Local Development.

The maximum salary for fiscal year 2005 was \$67,071, however, payroll records and reports filed indicate that the Judge/Executive received \$67,285, which is \$214 greater than allowed.

We recommend that the Judge/Executive reimburse the county for this overpayment from his personal funds.

County Judge/Executive Tommy Slone's Response: No Response

Reference Number 2006-2

The Jailer Should Prepare And Provide A Copy Of The Jail Canteen Report To The County Treasurer

In accordance with KRS 441.135, all profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer should keep books of all receipts and disbursements from the canteen and shall annually report to the County Treasurer on the canteen account.

The annual canteen report was not submitted to the County Treasurer.

We recommend the annual report be prepared and submitted to the County Treasurer as required.

County Judge/Executive Tommy Slone's Response: No Response

REPORTABLE CONDITIONS

Reference Number 2006-3

The County Should Properly Maintain Personnel Records

During testing of payroll, we noted that Social Security and Medicare do not appear to be withheld from part-time employees. Part time employees are not permitted to participate in county retirement and therefore should participate in Social Security and Medicare.

We recommend that in the future Social Security and Medicare be withheld from part-time employees not participating in the county employee retirement system.

County Judge/Executive Tommy Slone's Response: Will take care of this in future.

**JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)**

REPORTABLE CONDITIONS (Continued)

Reference Number 2006-4

The County Judge/Executive Should Present All Transfers To The Fiscal Court For Approval

During the course of our audit, we tested two transfers. We were unable to find approval in the fiscal court minutes for one of these transfers. This transfer was from the Road Fund to the General Fund in the amount of \$99,000.

We recommend that the County Judge/Executive present all transfers to the fiscal court for approval.

County Judge/Executive Tommy Slone's Response: Will do in future.

Reference Number 2006-5

Jackson County Parks And Recreation Should Prepare Financial Statements And Monthly Reports For The Fiscal Court

Jackson County Parks and Recreation is a component unit of Jackson County Fiscal Court and as such, receives part of its funding from the fiscal court. Therefore, Parks and Recreation should provide documentation to the county supporting the use of funds received from the fiscal court.

We recommend in the future that the Parks and Recreation prepare financial statements and monthly reports to present to the fiscal court.

County Judge/Executive Tommy Slone's Response: Will have the director to give a report each month.

Reference Number 2006-6

The County Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures

Section S of the General Employment Policies and Procedures states:

All County employees will be paid on the 15th and the 30th of each month.

During the course of our audit, we noted that payroll checks were given out and cleared the bank 1 to 4 days before the payroll date specified on the check.

We recommend the Treasurer disburse payroll checks in accordance with the County's General Employment Policies and Procedures.

County Judge/Executive Tommy Slone's Response: Correct

**JACKSON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)**

REPORTABLE CONDITIONS (Continued)

Reference Number 2006-7

The Jail Canteen Account Should Be Closed

During the course of our audit, we noted a balance of \$1,647 in the jail canteen bank account. Since the jail is not in operation as a full service jail, the jail canteen is no longer in operation and the canteen funds are restricted to expenditures for the recreation or benefit of the inmates.

We recommend that the account be closed, and the Jackson County Attorney consult with the Department of Corrections to determine proper disbursement of the funds.

County Judge/Executive Tommy Slone's Response: No Response.

REPORTABLE CONDITION AND MATERIAL WEAKNESS

Reference Number 2006-8

The County Should Maintain Complete And Accurate Fixed Asset Schedules To Comply With GASB 34 Requirements

During the course of our audit, we noted the County did not complete capital asset schedules for fiscal year 2006. The auditors were presented with a list of new assets, however, the list was not all-inclusive, nor did it contain useful lives for the assets. The County has a responsibility, which is a management function, to properly value assets and determine useful life.

We recommend that the county maintain complete and accurate capital asset schedules, which will meet GASB 34 requirements.

County Judge/Executive Tommy Slone's Response: Devonna Hisel, Financial Officer will put everything in this year.

PRIOR YEAR FINDINGS NOT CORRECTED

2005-1 The Jailer Should Maintain Accurate Records For The Jail Canteen And A Copy Of The Canteen Report Should Be Submitted To The Treasurer

2005-3 The Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures

2005-4 The Jail Canteen Account Should Be Closed

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Morgan-Franklin, LLC
Certified Public Accountants
P.O. Box 428
513 Main Street
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
FAX: (606) 743-1895
www.morganfranklin.com

The Honorable Tommy Slone, Jackson County Judge/Executive
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 12, 2006. Jackson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Jackson County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations as items:

- 2006-3 The County Should Properly Maintain Personnel Records
- 2006-4 The County Judge/Executive Should Present All Transfers To The Fiscal Court For Approval
- 2006-5 Jackson County Parks And Recreation Should Prepare Financial Statements And Monthly Reports For The Fiscal Court
- 2006-6 The County Treasurer Should Disburse Payroll In Accordance With The County's General Employment Policies And Procedures
- 2006-7 The Jail Canteen Account Should Be Closed
- 2006-8 The County Should Maintain Complete And Accurate Fixed Asset Schedules To Comply With GASB 34 Requirements

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider 2006-8 to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Jackson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items:

- 2006-1 The County Judge Executive Appears To Have Been Overpaid By A Net Amount Of \$214 Over The 2005 Fiscal Year
- 2006-2 The Jailer Should Prepare And Provide A Copy Of The Jail Canteen Report To The County Treasurer

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan – Franklin, LLC

Audit fieldwork completed -
September 12, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

JACKSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

JACKSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Jackson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Tommy Slone
County Judge Executive



Patricia Gabbard
County Treasurer